IRS TAXPAYER BURDEN REDUCTION INITIATIVE

The New Form 940 for 2006: "Plain & Simple"

Project Purpose

To reduce taxpayer burden and increase voluntary compliance by redesigning Form 940 and reengineering the processing.

History of Form 940 Redesign

- Began May 2004
- Led by Office of Taxpayer Burden Reduction (TBR)
- IRS team of experts
  - Input from internal & external stakeholders
  - Partnered with DOL, NASWA & Treasury
- Plain language document

History of Form 940 Redesign

- Developed objective
- Defined scope of project
  - Redesign 940, 940EZ, 940 PR
  - Simplify instructions
  - Ensure optical scanning
- Line-by-line review – “who uses data?”
- Reviewed internal processing
- Began redesign

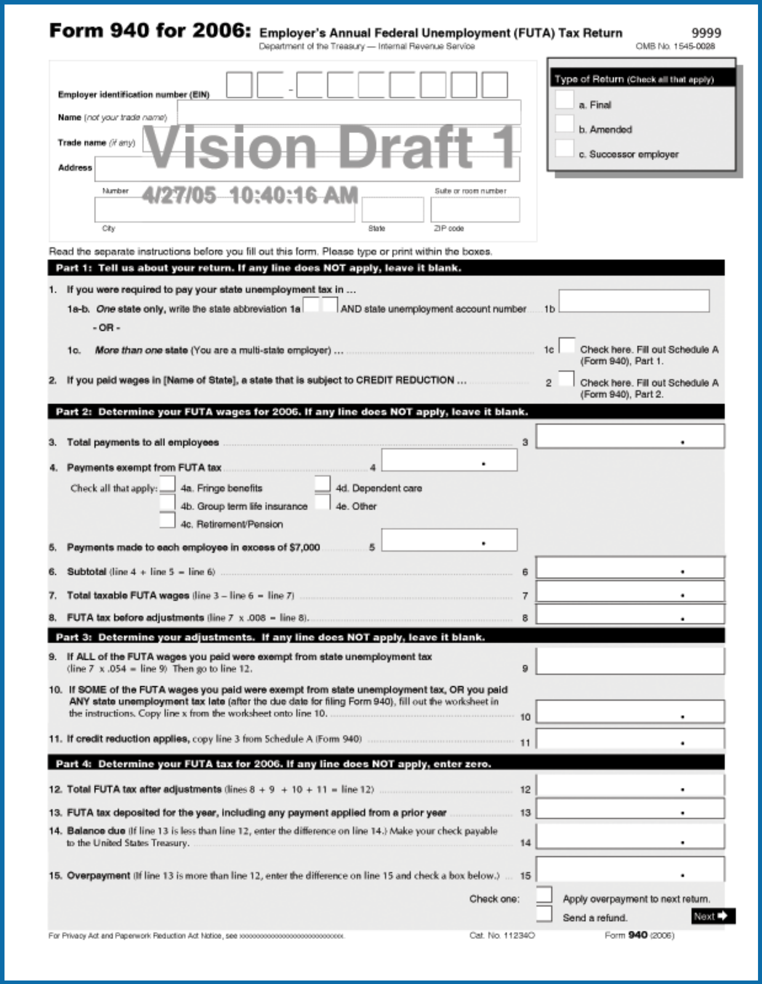
The new Form 940 for 2006 –
"Plain & Simple"

- Combined Forms 940 & 940EZ
  - No more need to determine which to use
  - All advantages of 940EZ retained
  - Reduced burden for over one million current "long form" filers
- Set up in logical sequence from <u>taxpayer's </u>point of view
  - Administrative-type questions first
  - Most commonly answered questions next
  - Adjustments and more complex issues follow
  - Fill out only lines that apply; skip those that don't

The new Form 940 for 2006 – "Plain & Simple"

- Information organized into 8 segments
  - Taxpayers can complete one segment at a time
  - Breaks major task into smaller ones
- Large **X** at place for signature
  - Reduces chance of omission
- Instructions on form – every line explained
  - Form and instructions guide you through math calculations

The new Form 940 for 2006 –
"Plain & Simple"



Form 940 for 2006: Employer's Annual Federal Unemployment (FUTA) Tax Return 9999
Department of the Treasury — Internal Revenue Service OMB No. 1545-0028

Employer identification number (EIN)
Name (not your trade name)
Trade name (if any)
Address
Number Street Suite or room number
City State ZIP code

Vision Draft 1
4/27/05 10:40:16 AM

Type of Return (Check all that apply)
a. Final
b. Amended
c. Successor employer

Read the separate instructions before you fill out this form. Please type or print within the boxes.

Part 1: Tell us about your return. If any line does NOT apply, leave it blank.

1. If you were required to pay your state unemployment tax in …
   1a-b. *One* state only, write the state abbreviation 1a AND state unemployment account number 1b
   - OR -
   1c. *More than one* state (You are a multi-state employer) … 1c Check here. Fill out Schedule A (Form 940), Part 1.
2. If you paid wages in [Name of State], a state that is subject to CREDIT REDUCTION … 2 Check here. Fill out Schedule A (Form 940), Part 2.

Part 2: Determine your FUTA wages for 2006. If any line does NOT apply, leave it blank.

3. Total payments to all employees 3
4. Payments exempt from FUTA tax 4
   Check all that apply: 4a. Fringe benefits 4b. Group term life insurance 4c. Retirement/Pension 4d. Dependent care 4e. Other
5. Payments made to each employee in excess of $7,000 5
6. Subtotal (line 4 + line 5 = line 6) 6
7. Total taxable FUTA wages (line 3 – line 6 = line 7) 7
8. FUTA tax before adjustments (line 7 x .008 = line 8). 8

Part 3: Determine your adjustments. If any line does NOT apply, leave it blank.

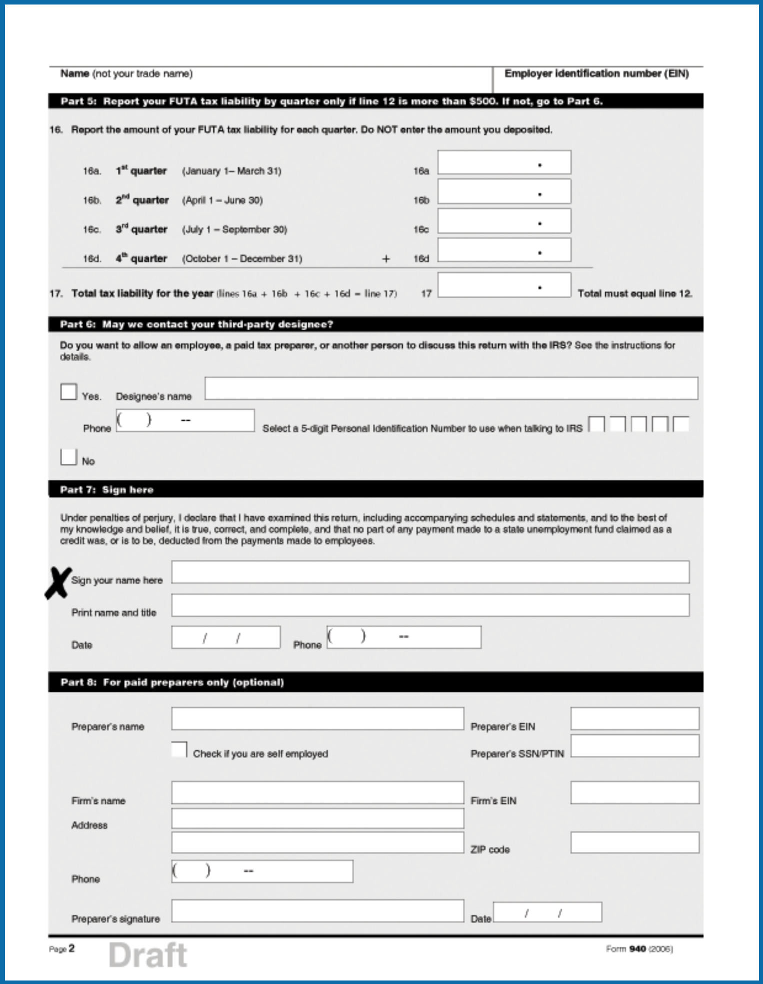
9. If ALL of the FUTA wages you paid were exempt from state unemployment tax (line 7 x .054 = line 9) Then go to line 12. 9
10. If SOME of the FUTA wages you paid were exempt from state unemployment tax, OR you paid ANY state unemployment tax late (after the due date for filing Form 940), fill out the worksheet in the instructions. Copy line x from the worksheet onto line 10. 10
11. If credit reduction applies, copy line 3 from Schedule A (Form 940) 11

Part 4: Determine your FUTA tax for 2006. If any line does NOT apply, enter zero.

12. Total FUTA tax after adjustments (lines 8 + 9 + 10 + 11 = line 12) 12
13. FUTA tax deposited for the year, including any payment applied from a prior year 13
14. Balance due (If line 13 is less than line 12, enter the difference on line 14.) Make your check payable to the United States Treasury. 14
15. Overpayment (If line 13 is more than line 12, enter the difference on line 15 and check a box below.) 15
    Check one: Apply overpayment to next return. Send a refund.

Next

For Privacy Act and Paperwork Reduction Act Notice, see xxxxxxxxxxxxxxxxxxxxxxxxxxxx. Cat. No. 11234O Form **940** (2006)



Name (not your trade name) | Employer identification number (EIN)

Part 5: Report your FUTA tax liability by quarter only if line 12 is more than $500. If not, go to Part 6.

16. Report the amount of your FUTA tax liability for each quarter. Do NOT enter the amount you deposited.
    16a. 1st quarter (January 1– March 31) 16a
    16b. 2nd quarter (April 1 – June 30) 16b
    16c. 3rd quarter (July 1 – September 30) 16c
    16d. 4th quarter (October 1 – December 31) + 16d
17. Total tax liability for the year (lines 16a + 16b + 16c + 16d = line 17) 17 Total must equal line 12.

Part 6: May we contact your third-party designee?

Do you want to allow an employee, a paid tax preparer, or another person to discuss this return with the IRS? See the instructions for details.

Yes. Designee's name
Phone ( ) – Select a 5-digit Personal Identification Number to use when talking to IRS
No

Part 7: Sign here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete, and that no part of any payment made to a state unemployment fund claimed as a credit was, or is to be, deducted from the payments made to employees.

Sign your name here
Print name and title
Date / / Phone ( ) –

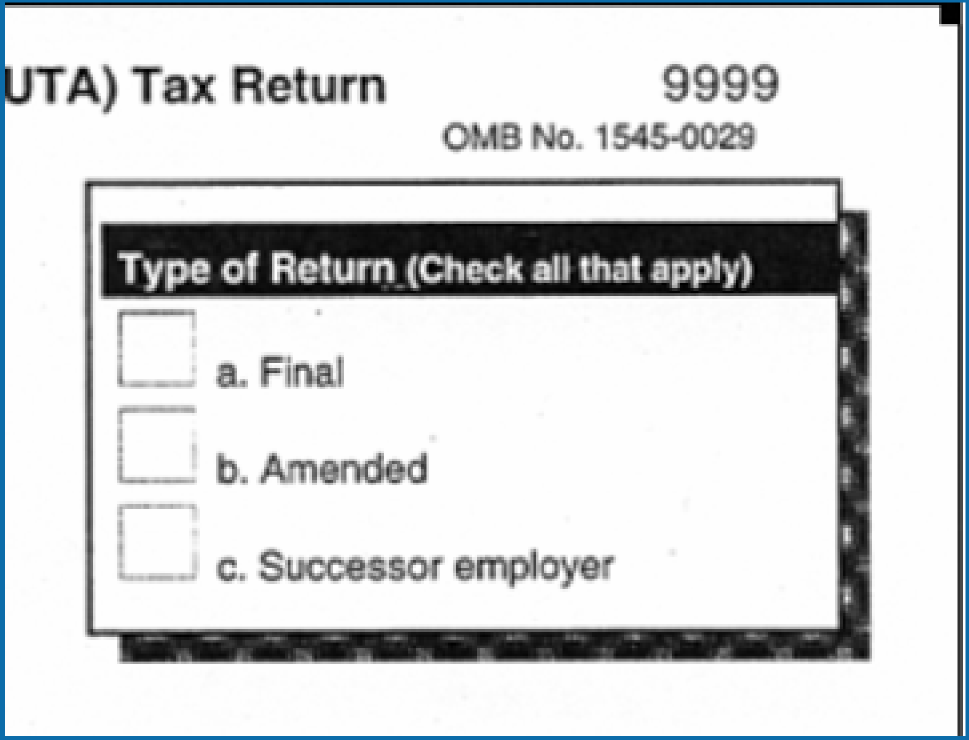
Part 8: For paid preparers only (optional)

Preparer's name Preparer's EIN
Check if you are self employed Preparer's SSN/PTIN
Firm's name Firm's EIN
Address
ZIP code
Phone ( ) –
Preparer's signature Date / /

Page 2 Draft Form **940** (2006)

The new Form 940 for 2006 –
"Plain & Simple"

- New check boxes in top right corner
  - No more A, B, C, questions
  - New boxes for successor employers, final & amended returns
  - Will promote accuracy, reduce unnecessary correspondence



UTA) Tax Return 9999

OMB No. 1545-0029

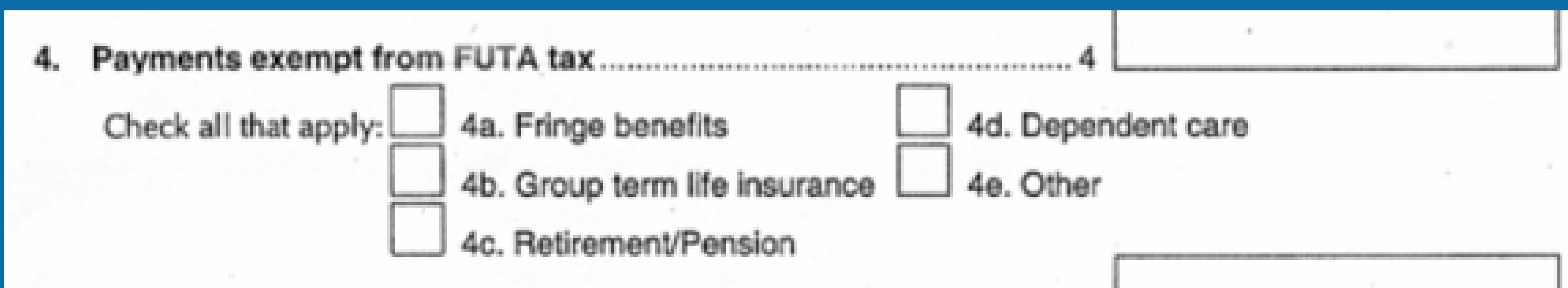
Type of Return (Check all that apply)

- a. Final
- b. Amended
- c. Successor employer

The new Form 940 for 2006 –

“Plain & Simple”

- No more hand-written explanations of exempt payments required
  - Check boxes capture exempt payments

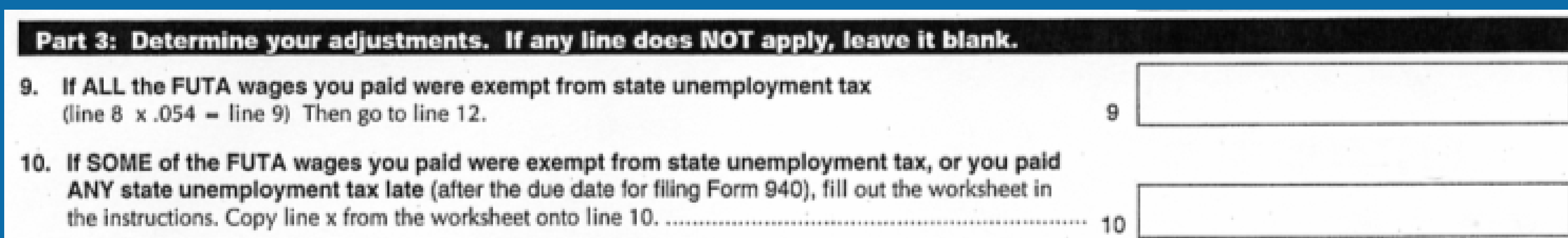


4. **Payments exempt from FUTA tax** 4

Check all that apply:
- ☐ 4a. Fringe benefits
- ☐ 4b. Group term life insurance
- ☐ 4c. Retirement/Pension
- ☐ 4d. Dependent care
- ☐ 4e. Other

The new Form 940 for 2006 –
"Plain & Simple"

- New section for computing adjustments
  - Replaced old Part II, lines 1-6 with new Part 3 (lines 9 & 10)



Part 3: Determine your adjustments. If any line does NOT apply, leave it blank.

9. **If ALL the FUTA wages you paid were exempt from state unemployment tax** (line 8 x .054 = line 9) Then go to line 12.	9	
10. **If SOME of the FUTA wages you paid were exempt from state unemployment tax, or you paid ANY state unemployment tax late** (after the due date for filing Form 940), fill out the worksheet in the instructions. Copy line x from the worksheet onto line 10.	10	

The new Form 940 for 2006 –
“Plain & Simple”

- New worksheet for computing adjustments
  - Worksheet, with decision points, guides you through computation if you have late payments or exempt employees
  - No more requirement to submit computations with return; you keep with your records

The new Form 940 for 2006 –

"Plain & Simple"

Need help? Call us at **1-800-829-4933** or visit our web site **at www.irs.gov.**

Worksheet

Use this worksheet to figure your credit if:

- ▶ **some of the wages you paid were exempt from state unemployment tax, OR**
- ▶ **you paid any state unemployment tax late.** (*LATE* means after the due date for filing Form 940.)

Before you can properly fill out this worksheet, you will need to gather this information:

- Taxable FUTA wages (from line 7 of Form 940)
- Taxable state unemployment wages
- The experience rates assigned to you by the states where you paid wages
- The amount of state unemployment taxes you paid on time (*ON TIME* means that you paid the state unemployment taxes on or before the due date for filing the Form 940.)
- The amount of state unemployment taxes you paid late

1. **Maximum allowable credit** (Line 7 from Form 940 x .054 = line 1) 1 ______

Compute your credit:

2. Credit for timely state unemployment tax payments – How much did you pay on time? 2 ______

- If line 2 is **equal to or more** than line 1, enter zero on line 10 of Form 940. **STOP here.**
- If line 2 is **less than** line 1, continue this worksheet.

3. Additional credit

- **Were all of your experience rates 5.4% or more?** If the experience rates assigned to you by ALL states for paying state unemployment taxes were 5.4% or more for the entire calendar year, enter zero on line 3. Then go to line 4 of this worksheet.

  - OR - 3 ______

- **Were any of your experience rates less than 5.4%?** If ANY of the experience rates assigned to you by a state were less than 5.4% for all or part of the calendar year, complete the computations below.

State	Computation rate The difference between 5.4% and your assigned rate. .054 – .xxx [your assigned rate] = Computation rate		Taxable state unemployment wages		Additional credit
1. ____	______________	x	______________	=	______________
2. ____	______________	x	______________	=	______________
3. ____	______________	x	______________	=	______________
4. ____	______________	x	______________	=	______________
5. ____	______________	x	______________	=	______________

If 6 or more state experience rates were less than 5.4% for ALL or PART or the year, repeat the computations on a separate worksheet.

Total ______

Copy the total onto line 3.

4. Subtotal (Lines 2 + 3 = line 4) 4 ______

- If line 4 is equal to or more than line 1, enter zero on line 10 of Form 940. **STOP here.**
- If line 4 is less than line 1, continue this worksheet.

5. **Credit for paying state unemployment taxes late**

   5a. What is your remaining allowable credit? (Lines 1 – 4 = line 5a) 5a ______

   5b. How much state unemployment tax did you pay late? 5b ______

   5c. Which is smaller (line 5a or 5b)? Copy the smaller number onto line 5c. 5c ______

   5d. Your allowable credit for paying state unemployment taxes late (Line 5c x .90 = line 5d) 5d ______

6. **Your FUTA credit** (Lines 4 + 5d = line 6) 6 ______

- If line 6 is equal to or more than line 1, enter zero on line 10 of Form 940. **STOP here.**
- If line 6 is less than line 1, continue this worksheet.

7. **Your adjustment** (Lines 1- 6 = line 7) Enter this amount on line 10 of Form 940. 7 ______

Do not attach this worksheet to your Form 940. Keep it for your records.

The new Form 940 for 2006 –
"Plain & Simple"

- New Schedule A
  - Part 1 for multi-state employers to report state unemployment account numbers
  - Part 2 for credit reduction information
  - Will simplify computation, increase processing accuracy, and reduce unnecessary taxpayer correspondence

The new Form 940 for 2006 –

“Plain & Simple”

9999

Schedule A (Form 940) for 2006:
Multi-State Employer and Credit Reduction Information

Department of the Treasury
Internal Revenue Service

Vision Draft 1

4/27/05 10:40:02 AM

OMB No. 1545-0028

Employer identification number (EIN) ___

Name (*not your trade name*) ___

About this schedule:

- You must fill out Schedule A, Form 940 (*Employer's Annual Federal Unemployment Tax Return*) if you were required to pay your state unemployment tax in *more than one state* or if you paid wages in any state that is subject to *credit reduction*.
- Attach Schedule A to your Form 940 and file it with your return.

For more information, read the instructions on the back of this schedule.

Part 1: Fill out this part if you were required to pay state unemployment taxes in more than one state. If any states do NOT apply to you, leave them blank.

1. For any state in which you paid wages this year, write the *state unemployment account number* assigned to your business. For a list of state names and their abbreviations, see page 2.

AK		ID		MT		PR	
AL		IL		NC		RI	
AR		IN		ND		SC	
AZ		KS		NE		SD	
CA		KY		NH		TN	
CO		LA		NJ		TX	
CT		MA		NM		UT	
DC		MD		NV		VA	
DE		ME		NY		VI	
FL		MI		OH		VT	
GA		MN		OK		WA	
HI		MO		OR		WI	
IA		MS		PA		WV	
						WY	

Part 2: Fill out this part to tell us about wages you paid in any state that is subject to credit reduction. If any lines do NOT apply, leave them blank.

2. If you paid wages in any of these states …

2a. [Name of State] Total taxable FUTA wages paid in [state] ….	.	x .00x	= line 2a	2a	.
2b. [Name of State] Total taxable FUTA wages paid in [state] ….	.	x .00x	= line 2b	2b	.
2c. [Name of State] Total taxable FUTA wages paid in [state] ….	.	x .00x	= line 2c	2c	.
2d. [Name of State] Total taxable FUTA wages paid in [state] ….	.	x .00x	= line 2d	2d	.
2e. [Name of State] Total taxable FUTA wages paid in [state] ….	.	x .00x	= line 2e	2e	.

3. Total credit reduction (Lines 2a+ 2b+ 2c +2d + 2e = line 3) …… 3 .

Copy line 3 onto line 11 of Form 940.

Instructions for Schedule A (Form 940) for 2006:
Multi-State Employer and Credit Reduction Information

Specific Instructions: Completing Schedule A (Form 940)

Part 1: Fill out this part if you were required to pay state unemployment taxes in more than one state.

1. For every state in which you paid wages this year,

Fill in the state unemployment account number assigned to your business next to the abbreviation for the appropriate state.

Note: If you do not have an unemployment account number from a state in which you paid wages, contact the local state office to receive one. Enter *Applied For* on the appropriate line for the state.

For ease of reference, here is a list of the states and territories and their two-letter postal abbreviations:

State	Postal Abbreviation	State	Postal Abbreviation
Alabama	AL	Montana	MT
Alaska	AK	Nebraska	NE
Arizona	AZ	Nevada	NV
Arkansas	AR	New Hampshire	NH
California	CA	New Jersey	NJ
Colorado	CO	New Mexico	NM
Connecticut	CT	New York	NY
Delaware	DE	North Carolina	NC
District of Columbia	DC	North Dakota	ND
Florida	FL	Ohio	OH
Georgia	GA	Oklahoma	OK
Hawaii	HI	Oregon	OR
Idaho	ID	Pennsylvania	PA
Illinois	IL	Puerto Rico	PR
Indiana	IN	Rhode Island	RI
Iowa	IA	South Carolina	SC
Kansas	KS	South Dakota	SD
Kentucky	KY	Tennessee	TN
Louisiana	LA	Texas	TX
Maine	ME	Utah	UT
Maryland	MD	Vermont	VT
Massachusetts	MA	Virginia	VA
Michigan	MI	Virgin Islands	VI
Minnesota	MN	Washington	WA
Mississippi	MS	West Virginia	WV
Missouri	MO	Wisconsin	WI
		Wyoming	WY

Part 2: Fill out this part to tell us about wages you paid in any state that is subject to credit reduction.

2. You are subject to credit reduction, if you paid wages in any state listed.

If you paid wages in any states that are subject to credit reduction, find the lines where the states are listed.

In the first box, enter the total taxable FUTA wages that you paid in that state. Do not use your state unemployment wages here.

Then multiply the total taxable FUTA wages by the number shown.

Enter your answer in the box at the end of the line.

3. Total credit reduction

To calculate the total credit reduction,

line 2a
line 2b
line 2c
line 2d
\+ line 2e
line 3

Then copy line 3 onto line 11 of Form 940.

Attach Schedule A to Form 940 when you file your return.

The new Form 940 for 2006 –

“Plain & Simple”

- Form 940-V Payment Voucher removed from form
  - Now in instruction booklet
  - Less likelihood of being detached
  - Will expedite processing, prevent unnecessary correspondence

The new Form 940 for 2006 –
"Plain & Simple"

- Form will be optically scanned
  - More accurate and efficient
  - Reduces chance of errors

Next Steps

- Gathering feedback
  - Send comments to: Form940redesign@irs.gov
- Focus groups & cognitive testing of form
  - May to September 2005
- November 1, 2005
  - Target date for finalizing design, submitting to IRS programmers & software developers
- 2006 – roll out redesigned Form 940
- 2007 processing season – begin scanning forms

Project Contact

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